Utah Department of
HUMAN RESOURCE
Management

Options for Rebalancing Benefit & Pay Values

Problem Statement

- Many state agencies are facing difficulties in attracting and retaining talent
- Especially difficult in time of state prosperity and low unemployment in which there is a high market demand for both entry level roles as well as mid-career, highly trained roles
- State employment motivators include job stability, improved work-life balance, and strong benefit (retirement & health care) offerings
- While these motivators remain strong for many, some desire higher wages even if less value in benefits
- Challenge is to improve attraction and retention through higher wages while maintaining strong benefit offerings - **Personal choice is key**

Current Pay Adjustment Initiatives

- Cost-of-Living Increases
- Targeted Funding Initiatives
- Administrative Salary Increases
- Reinvest agency operational improvement savings into employee compensation

These actions should continue and run in parallel to those proposed with these benefit/pay rebalancing recommendations

Proposal Parameters

- Key parameters of current proposal are:
  - Allow employee choice so as to appeal to individual motivators
  - Little, if any, budget impact
  - Be perceived as fair, transparent, and favorable by candidates/employees

Utah Department *of*
HUMAN RESOURCE
Management

Medical Insurance Rebalancing Option

Health Care Spending Account (HSA) Contribution Conversion to Cash

- Currently, state employees have three options (made annually) for medical care
  - Traditional Non-HSA
    - Bi-weekly premiums
    - No Employer Contribution to HSA
  - STAR HSA
    - No premiums
    - **$791.96/$1583.92 Employer Contribution to HSA**
  - BASIC PLUS HSA
    - No premiums
    - **$1824.68/$3649.62 Employer Contribution to HSA**
- Allow employee to elect annually to convert portion of HSA contributions to cash
  - $250 increments up to
    - STAR **$500/$1000** (potential for a $0.24to $0.48 per hour increase)
    - BASIC PLUS **$1250/$2500** (potential for a $0.58 to $1.20 per hour increase)
  - Administered by PEHP
    - Employee elections captures during open enrollment period
    - Cash conversion payments provided by PEHP allowing complete transparency to employee as well as no impact on income/retirement calculations

Health Care Spending Account (HSA) Contribution Conversion to Cash

- Pros
  - Employee still receives high-deductible medical insurance at no cost to employee
  - Employee still receives some portion of HSA contribution to offset initial yearly medical expenses
  - Employee choice can be made annually to allow for changes in needs/motivators from year to year
  - Pay is transparent to employee
  - Pay is separate from normal base pay and will not impact pay ranges or retirement earning potential
  - No change required to current benefit offerings
  - Employee would pick up employer share of payroll taxes
  - More incentive for employees to move to consumer driven plans
- Cons
  - Employee loses tax-shelter benefit of cash-converted amount which will be subject to payroll (both employee and employer) taxes
  - Should an adverse health event occur, employee would potentially be open to a larger personal financial burden

Utah Department *of*
HUMAN
RESOURCE
Management

Retirement Savings Rebalancing Options

Future savings from reduction in pension liability payments could be used for salary increases

- Currently state pays 9.94% of payroll to pay off unfunded pension liability for state employees (Amortization Rate)
- Pension liability is currently approximately 88% funded
- State Retirement Board is reviewing options to decrease amortization rate as state approaches full funding
- As amortization rate decreases, cost savings will be realized for the state

- Pros
  - No change needed to current URS plan design and no impact to any participating member of URS
  - Recommendation is consistent with past commitments made (real or perceived) to employees

- Cons
  - No savings will occur this year
  - Unsure of when savings will start
  - Savings will be smaller at first and then grow and pension funding approaches funding target
  - Savings are subject to overall market turns
    - If the need arose to increase the amortization rate, the funds would be committed to employees and difficult to retract

Change Tier 2 Defined Contribution (DC) Plan to Matching DC Plan – NOT Recommended

- Currently, Tier 2 eligible employees can elect within first year of employment to enroll in a Pension Hybrid (mostly Defined Benefit) plan or a Defined Contribution plan (election is irrevocable after 1st year of employment)
  - Defined Contribution pays 10% into 401(k) on behalf of employee and allows for a $26 match should employee contribute at least $26 towards own 401(k)

- Options were analyzed on how to change the Defined Contribution plan, such as:
  - Only contribute 5% to 401(k) and give 5% back to employee and encourage employee to contribute to own 401(k)
  - Take the 10% contribution and give 6% back to employee and incentive employee to contribute to own 401(k) saving by providing a $1 for $1 match on the first 6% contribution

Change Tier 2 Defined Contribution (DC) Plan – NOT Recommended

- Cons
  - These options would require plan change which would also impact other governmental units that also participate in URS plans
    - Could have adverse impact on plan participants that have Social Security exemption and/or other reporting requirements
    - URS would face significant programming and process changes to accommodate plan change
  - Employee must still elect into plan during first year of employment and election is irrevocable
    - Unclear on how to handle first year until employee makes final, irrevocable plan election
  - If employee elects to not contribute any money towards 401(k), there is less to no money being saved towards retirement leading to a reduction in retirement security which increases potential use of public assistance in future
  - Employee and employer will be subject to payroll taxes on portion that is not redirected back to 401(k), increasing cost to both employee and employer

Utah Department *of*

HUMAN RESOURCE

Management